

ABSTRACT:

LABOUR MARKET RETURNS TO VOCATIONAL EDUCATION: THE ROLE OF COUNTERFACTUAL CHOICES

SÖNKE MATTHEWES

WZB BERLIN SOCIAL SCIENCE CENTER

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Many countries consider expanding vocational programmes to boost skills and reduce youth unemployment, though disagreement remains on whether these really benefit students' labour market outcomes. Critics argue that occupation-specific skills acquired in vocational tracks might quickly become obsolete in the face of rapidly changing labour demand. Advocates argue that vocational education increases the employability of less academically inclined students. We aim to reconcile these views by empirically decomposing the net effect of vocational education on earnings into the effect for students at the margin between vocational and academic education, and the effect for students at the margin between vocational and no further education. To estimate margin-specific complier treatment effects, we leverage an identification approach based on multiple instrumental variables together with linked administrative education and earnings data for England, where students have to choose between no further education, a vocational and an academic upper secondary track at the age of 16. We find that vocational education boosts earnings at age 29 for students who choose it as an alternative to no post-16 education, mainly through employment effects, but decreases earnings for a majority of students who are diverted from the academic track, through wage (and working hours) effects. The negative results at the vocational vs. academic education margin are driven by male students and cannot be explained by differential access to higher education. Our results caution against an across-the-board expansion of vocational upper secondary education and, instead, support targeting students at risk of dropping out.